A Hierarchy of Aligned Incentives:

Health in the Context of Broader Human Capital Enhancement

Health As **Human Capital** Foundation

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People matter. Plain and simple. Human capital—in the form of skills, motivation and health—is the engine that propels every business, in every industry, across the aggregate economy.

At a conceptual level, every business leader understands that optimizing human capital performance leads to greater productivity, competitive advantage and, no doubt, enhanced profitability. Indeed, one often hears companies pronounce that "our people are our greatest asset." Yet, upon closer review, it is clear that this "greatest" asset is not monitored, nurtured or rewarded in ways that maximize its value. In practice, people are often treated as an expense rather than an asset—and learn to behave as such.

If your people make the "difference," is that because they make your top line bigger or your expenses smaller?

In accounting, companies refer to revenues as the "top line"—the overall income generated through their business. From that top-line figure, businesses subtract operating expenses to calculate net income, or the "bottom line." Corporate results improve—achieving a bigger bottom line—when either the top line grows, or when expenses lessen. Either strategy for improvement, growth or belt-tightening, can produce business value; each communicates a different philosophy about people.

Considering people a "cost-of-doing-business" rather than partners in actually "doing business" leads to a logical emphasis on cost-management strategies. When employers try to reduce the cost of benefits (like health care), even when such efforts have the intent of improving employee health, workers recognize that the underlying motivation is to shrink ***operating costs*** and maximize the bottom line. Without meaning to, employers send consistent, sometimes strong, messages that humans **aren't** resources, humans **take** resources.

There is an alternative perspective that warrants consideration: an ***additive*** top-line approach. Employees, directly or indirectly, generate revenue; they are living, breathing contributors to the ***top line***. Taking this view, one would naturally place greater emphasis on enhancing and rewarding performance, and less emphasis on reducing operating costs. While some companies believe, and say, they take a top-line approach, their traditional employment policies and practices erode top-line employee contributions.

This paper outlines a hierarchy of employment practices that align into a consistent top-line strategy. Some are counter to traditional HR practices and frightening to those wedded to traditional, paternalistic approaches. But, these aligned practices provide consistent, rational, economic incentives that harness and reward top-line human capital.

If we are worried about health care costs, why are we talking about salary and absence policies?

<u>The Premise</u>: if a company rewards human capital performance, consistently and tangibly, people will protect their own human capital assets.

<u>Translation</u>: lower health care costs will be a 'side effect' of coherent employment, absence and compensation policies.

Employers are concerned about the cost of benefits, specifically medical insurance costs. In recent years, both HR professionals and CFOs have expressed significant worry about ever-rising costs and interest in strategies to produce significant reductions in the burden of health-related expenses. (1, 2)

Given recent figures that the average family premium for employer-sponsored health care exceeds $10,000 annually, employers have reason to worry. (2) Corporations have responded with a variety of attempts to manage costs through different insurance designs, programs to support patients in more diligent management of their health, and organized demands on health care providers and institutions. (2-4) Annually, employers invest hundreds of millions of dollars on health programs, negotiating better insurance arrangements, and establishing quality-based reward systems for providers. (5-7) There is no shortage of action underway to better manage health care spending.

Organizations will surely continue their efforts to influence insurers, providers and patients, some with greater success than others. Here, we propose a counter-intuitive approach to health-related benefits and illustrate how non-health-related policies and practices, *by those same organizations*, may actually sabotage their own efforts to manage costs.

Put simply, if a person shares in top-line business success ("the company's success equals my success") and in savings generated by lowering operating expenses, he or she will have a personal stake in remaining productive and spending wisely. If the person does not share meaningfully in either the successes or failures of the organization, he or she will not have the same personal incentive. In other words, if economic incentives are aligned such that a person's health status and health care dollars have more personal value, the person will make a greater effort to protect both. And the *most important* incentives have relatively little to do with health care.

Health benefits within the context of the employment contract

For most large employers, an employment contract contains many components. It includes how and for what someone is paid, elements of paid time-off, various types of insurance coverage, deferred compensation into retirement investments, in-house services, available equipment, and

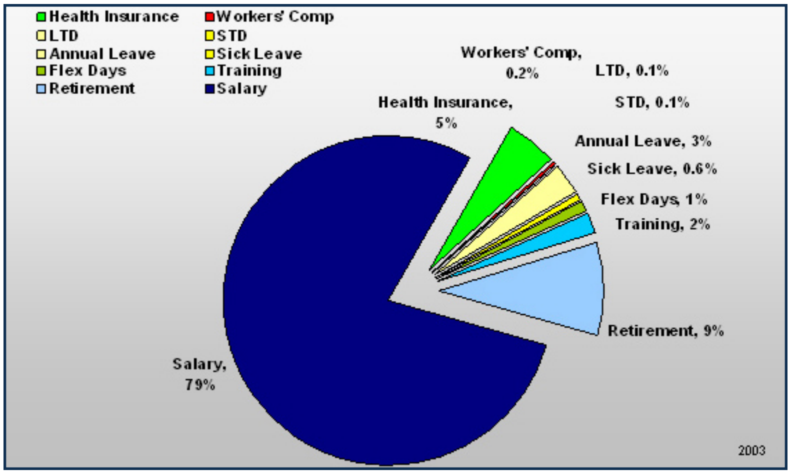

Figure 1

eligibility for training. Health-care insurance represents only one of many contractual pieces, and depending on salary, many not even be a large portion. As an example, in figure 1 we see a pie-chart of total compensation for a large, scientific organization (8). Health-care expenditures represent about 5% of all compensation. Salary represents the greatest portion of compensation. Even for full-time workers who have salaries below $20,000, medical expenditures for the employees and their families rarely exceeds 25% of compensation, with salary representing over two-thirds.

Employees will place a value on health-related benefits (health-care insurance, sick leave, short- and long-term disability, and workers' compensation) within the context of the full employment agreement. Similarly, efforts to modify health-related benefits (decrease access, shift costs, or encourage wiser consumption) will also be interpreted in the context of the broader employment agreement.

An aligned incentive hierarchy

Does the employee feel like a top-line asset? Or an operating expense?

Consider efforts by employers to influence employees' consumption of health-care services. Whether this effort involves an advisory program to encourage better consumerism skills, or a new type of managed care plan that provides superior quality of care, it represents an attempt by the employer to alter employee behavior. One mechanism an employer may use to lower costs is by encouraging more efficient and effective use of appropriate services. The desired business outcome is to lower overall health-care costs. (figure 2) How will employees respond to this desired outcome? Assume that the new program or plan is reputable, valuable to the individual, and effective. Will employees welcome the activity? Participate?

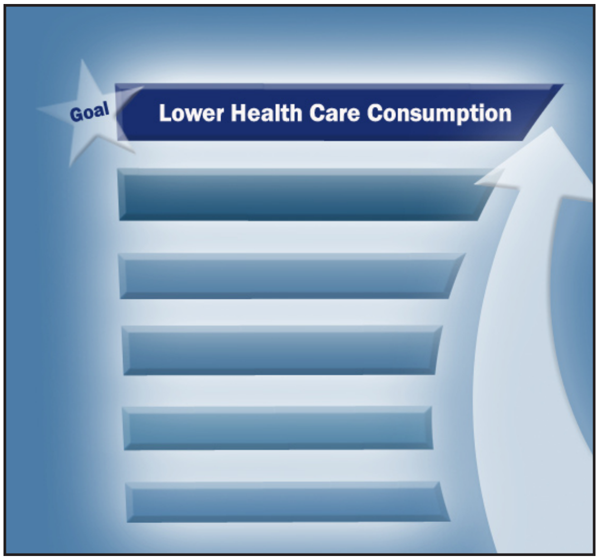

Figure 2

In the Health as Human Capital paradigm, we contend that the individual's response depends on the broader context of the employment contract; the spirit of the agreement. Does the employee feel like a top-line asset? Or an operating expense? To what degree will he share in the company's success if he performs well? Essentially, the employee will ask whether improving health or using care more efficiently is in his or her best interest, or whether the employer is simply making an attempt to reduce the value of the employee's compensation.

The following sections feature building blocks of an aligned incentive hierarchy that both maximizes human-capital performance and builds an environment that encourages health protection.

Tier One: Paying market value for human capital

Figure 3

First and foremost, the employment contract is an agreement to exchange work for pay. Paying a person market value for his human capital indicates that his skills and abilities provide value to the business (figure 3).

Greater education and greater specialized skills will result in higher wages on average, and a greater number of employment opportunities to choose from, as seen in figure 4.(9) Also, paying market value implies that as a person's relevant abilities and skills improve, compensation will increase. From the perspective of incentives, if the employment contract provides fair pay and rewards for the human capital embodied in the worker, then it will be a motivating force for the worker to give his most productive effort.

We see in figures 5 and 6 the results of a study of energy workers. (10) As one sees, the highest performers were most likely to leave their jobs. Eighty percent of the highest-rated workers left within five years, compared to only 20 or 30% of mid-range performers. This occured because the highest performers in a given job are most likely to be underpaid. The phenomenon is further confirmed by the differences in turnover for high performers depending on whether they were recognized with salary increases (figure 6). Those receiving higher pay increases were much less likely to leave (only 10% left) compared to those receiving the lowest pay increases (all 100% left).

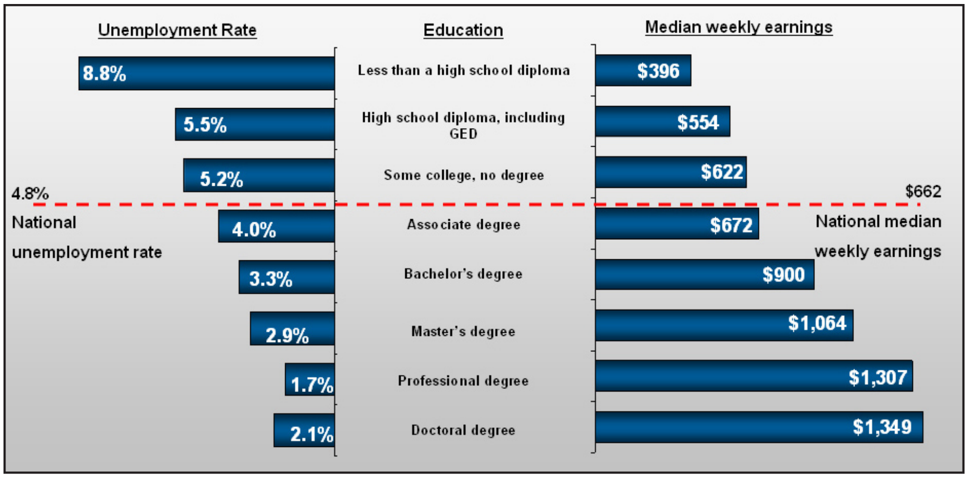

Figure 4

Receiving market value for one's skills (especially as skills improve) sets a tone for the employment contract by recognizing and rewarding contribution. In other words, it recognizes the employee as a part of top-line business achievement.

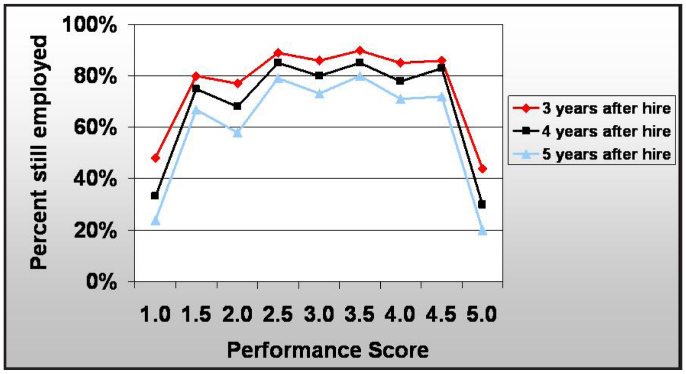

Figure 5

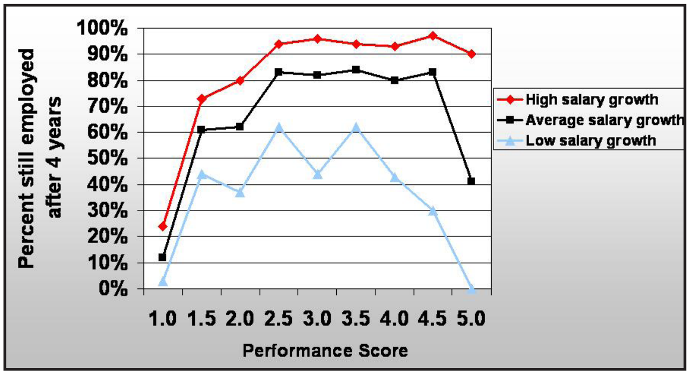

Figure 6

In some organizations, one might hear workers say "our pay is not good, but the benefits are great." In this situation, workers recognize that the organization places less value on the top line (rewarding skills and effort) and compensates for that by providing benefits and services unrelated to (and sometimes counter to) work effort. These benefits represent an operating cost that workers learn to value and, understandably, resist attempts to reduce. The emphasis of an employment agreement in this situation does not create mutual incentives to achieve top-line success. Instead, it creates an agreement where the perceived value to the worker is unrelated to his or her skills and effort: *we realize we cannot reward you for your human capital, so please accept these other items instead*. Such an arrangement cannot help but create mis-aligned incentives because workers take (and keep) the job for reasons other than work-related rewards.

For these reasons, as illustrated in figure 4, the first essential incentive in the hierarchy is paying market value for a person's human capital.

Tier Two: Pay that reflects performance

The Health as Human Capital philosophy emanates from a core principle: a day's pay for a day's work. The closer an employment contract can be to this basic exchange, the more aligned both parties (employer and employee) will be toward shared mutual goals—business success and good health.

Thus, rewards for good performance form the second tier in the incentive hierarchy. To be effective, rewards need to be visible, meaningful, timely, tangible and reliable. Workers need to know that the reward is

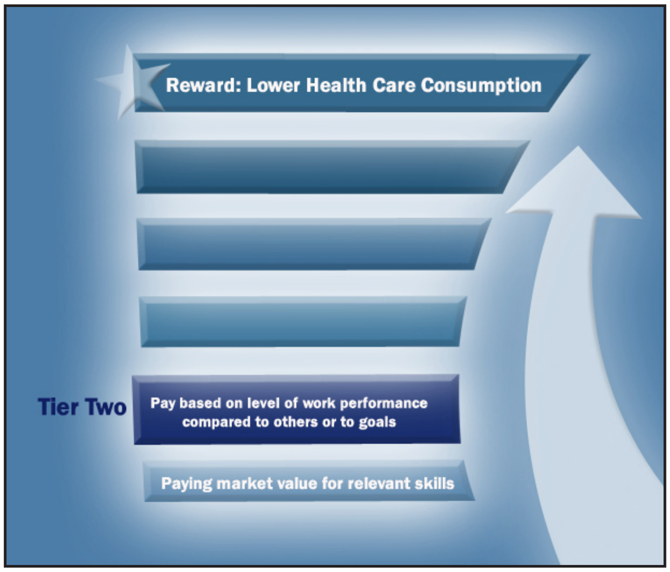

Figure 7

significant, predictable, and will be tied directly to individual and/or company performance. The greater the portion of pay that reflects performance, the more aligned the worker will be to top-line goals. Further, the more workers can earn above base pay (e.g., bonus opportunity above a base salary) with high performance, the more they will protect their health and functional ability to work.

Rewarding people for their abilities and efforts, regularly and tangibly, is essential to aligning workers with company success, and encouraging health-protective behaviors. In jobs where pay has little connection to work effort—salary with no bonus, and standardized, minimal raises—workers recognize that better performance will not produce reliable financial returns. Compensation becomes further disconnected from skills, effort and functional ability.

A worker who knows he will be rewarded well for high performance has reason to consider health behaviors that might interfere with his performance. A worker whose performance has no noticeable effect on pay has less motivation to consider the work implications of health. Additionally, the worker who perceives a greater relative value in his benefits—rather than in pay—also knows that the way to get value from benefits is to use them.

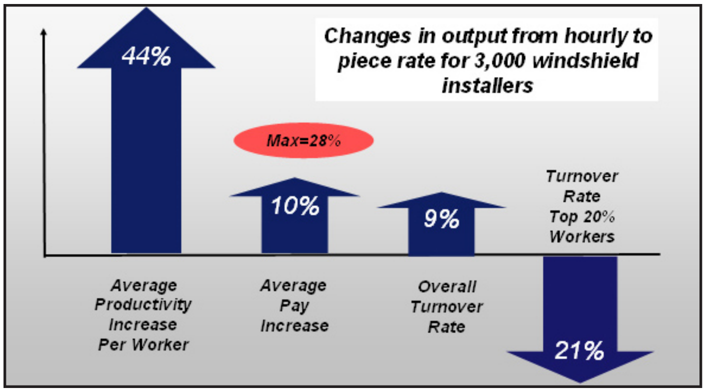

Figure 8

Do workers respond to performance-based pay with greater efforts? A study of windshield repair workers demonstrates that they do (see figure 8). (11) When the company switched from hourly pay to pay based on the number of windshields installed, overall productivity increased 44%. Workers shared in the success, receiving an average increase in pay of 10% (and as high as 28%). Fewer of the top workers left the company, but turnover in the year following the change indicated that some workers did not like the new approach. Because evidence indicated that more of high performers stayed, the observed turnover may have been with workers who valued their other benefits more than rewards for work performed. Working harder, with an opportunity for greater rewards, was not attractive.

An important component in aligning this ***day's work for a day's pay*** incentive is measurement. If performance is not monitored, measured, or rated in any regular, systematic manner, it will not be possible to attach meaningful rewards. Surprisingly few employers measure or rate performance in a systematic way, except in specific jobs (e.g. sales commissions or call-center performance). Ironically, even in companies where combined salaries are ten to fifteen times as large as health care expenditures, performance (what one exchanges for salary) is poorly measured, but medical expenditures are scrutinized carefully.

Performance measurement and performance-based pay is essential to creating aligned incentives. Even in jobs where it is more difficult to tie outcomes to specific job tasks, it is important that employees recognize an opportunity to benefit from their skills and effort, as well as from the functional health they need to maintain to do good work.

Rules, policies and unwritten expectations can often undermine the practice of a day's work for a day's pay. Are employees expected to 'finish the job', while simultaneously ordered to limit their overtime? Are business outcomes undervalued, while working late (face time) is rewarded? Any mismatch between valuable work performance and rewards discourages human capital initiative. And as we will see, the less value a worker realizes (i.e., bonuses) from work effort, the more value he or she will attribute to other types of compensation (i.e., benefits).

Tier Three: More value for presence than absence

To create a partnership, aligned incentives cannot be one-sided

An interesting tradition evolved in the industrial age and the years during and after World War II, where companies began adding other forms of compensation besides wages. One of these benefits is health-related, paid time-off. Now an expected practice by virtually all medium and large employers, workers expect to be paid during an illness episode. In some of the largest companies this takes the form of sick leave, plus salary continuance for extended illness (100% of pay during an absence up to 12 to 26 weeks), and long-term-disability insurance for prolonged or permanent illness (usually near 60% of salary for many years).

While these practices evolved from a desire to provide attractive "perks" to workers and protect families from a misfortune experienced by their primary bread-winner, paid-time-off policies create distinct, sometimes perverse, incentives.

From a simple ***day's work for a day's pay*** perspective, a sick day paid at 100% of salary sends a message that there are no shared consequences for missing work—the employer should experience the full loss of work not performed, and the worker should experience none. Further, in cases where the worker loses unused sick leave at the end of the year, there is additional motivation to *not work* in order to receive full value for one's benefits.

Protecting workers from the consequences of pure misfortune may seem good-hearted, but to a certain extent ***full*** protection is counter-productive. First of all, if aligned incentives create a partnership for mutual success, they cannot be one-sided. A true partnership not only shares the consequences of success, but also the consequences of hardship. If one of the partners only experiences gain, but no risk of loss, mutual incentives are lost. Absence with no personal consequence does not reinforce a mutual investment in success.

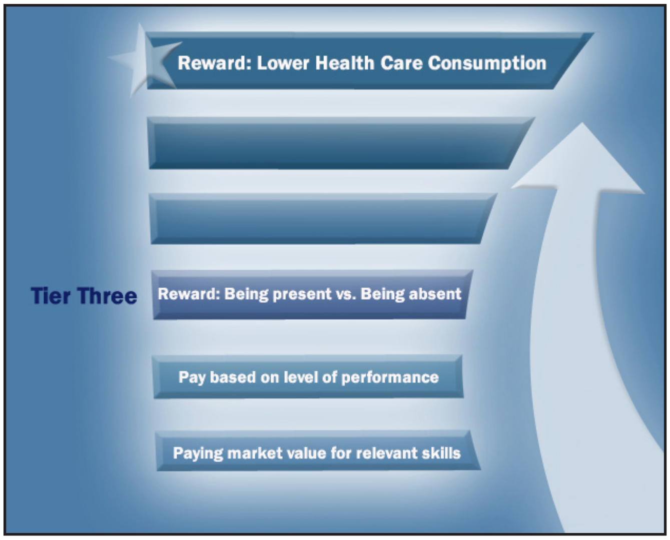

Figure 9

Full protection from loss during medical absence also creates other unintended consequences. First, such a policy implies that all illnesses are the result of unpreventable misfortune, eliminating incentives and rewards for those who protect their own health. Full pay during illness awards equal benefits to those who don't take care of themselves as those who do. At the extreme, rewarding the person who cannot work due to a hangover with the same pay as the person who showed up for work results in conflicting messages about what the company values. Certainly some illnesses are the complete result of bad luck. Some illnesses or injuries may even be the consequence of neglect by the firm. However, even in those cases, a mutual incentive to recover quickly sends a clear message that the worker is more valuable working than not.

Second, although subtle, full pay during medical absences makes having an illness more valuable to the worker. If a worker can get more paid time-off, or higher pay during time off, by classifying an absence as medical, then having an illness gains value. Situations where having a medical problem produces greater value than remaining well create incentives in the wrong direction.

Thus, the third tier in an aligned incentive hierarchy is visible, tangible reliable rewards for being present rather than absent. Foremost in this tier is simply tracking absence. There remains a significant reluctance on the part of large companies, especially those with white collar workers, to track absence in a formal way. Most report a concern about morale or claim that not tracking absence implies trust. Yet, if a partnership is based on a day's pay for a day's work, monitoring who is present seems essential. Further, informal trust-based arrangements are prone to abuse by the least dedicated workers. As such, once again, the hard working, trustworthy, healthy employees inevitably receive fewer benefits (in the form of days off) than those less invested in working hard.

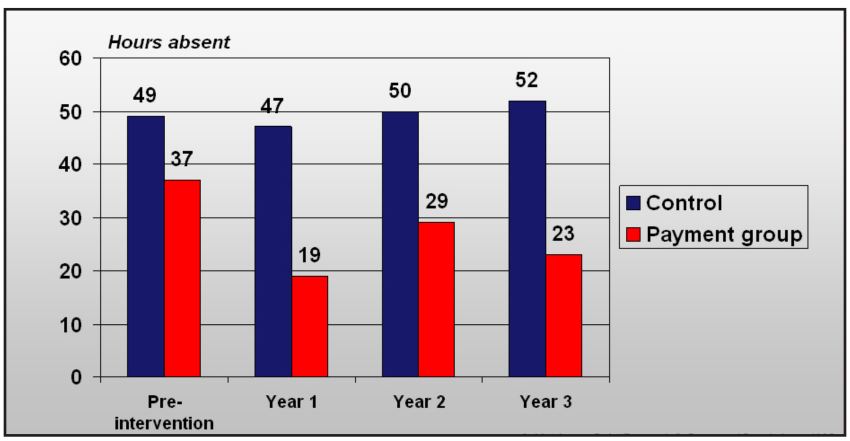

Figure 10

Economic principles also suggest that large companies are most likely to experience the effects of "free-riders." Costs of monitoring performance (including sick-leave) of workers rise exponentially with the size of the organization. For example, a firm with two workers has no difficulty monitoring the performance of each worker, including the effects of time-off. For each worker, the output of the two is reduced by one-half if one does not show up for work. The cost to both worker and the firm are obvious and steps will be taken to prevent absence. But if one worker is absent in a firm with 1,000 workers, the output is reduced by only one-thousandth—hardly worth worrying about. This creates greater incentives for each individual worker to free-ride (12). He gets the entire benefit of not working, but bears only one thousandth of the diminution of the value of the firm's output. Hence, monitoring and managing 'malingering' of all kinds is a significant problem for all large organizations.

Incentives should demonstrate that "the company's success equals my success."

How does a company place a higher value on presence than absence? There are many strategies and practices through which a company can reinforce this philosophy. One way is to have a significant portion of compensation based on pay-for-performance bonuses (defined in the section above) and award pay for health-related, paid time-off on base salary only. In this way, the worker receives a consistent message that bonus paid is earned through work effort and sees an incentive to return to work.

Other strategies include combining sick leave and vacation into a single bank of Paid-time-off (PTO) days. In this way, workers who stay healthy are rewarded with more discretionary time. Employers can also choose to pay employees a portion of the value of unused paid time-off, which rewards those who stay at work in proportion to the sick time they do not use. The small study shown in figure 10 shows the results of a company providing cash for unused sick leave to one group, while keeping the use-it-or-lose-it policy with the other. (13) Those receiving cash value accumulated fewer absences. Lastly, employers can implement waiting periods on disability pay, or step-downs (paying less than 100% pay during an absence), to indicate to workers that the consequences of injury or illness will be shared to a certain degree.

This tier of incentives often provokes the greatest reactions among employers and workers, especially in large companies and government agencies. Ingrained policies have created an environment of entitlements—an expectation that one deserves extended pay while not working. Interestingly, self-employed workers understand and accept these principles as the reality of work life, because these workers usually do not have paid sick leave and understand that one must work to be paid.

A recap of tiers one through three

In the introduction, we stated that the hierarchy of aligned incentives is based on the following premise:

If you reward human capital performance, consistently and tangibly, people will protect their own human capital assets, including health.

And further translated that to:
Lower health care costs will be a 'side effect' of coherent employment, absence and compensation policies.

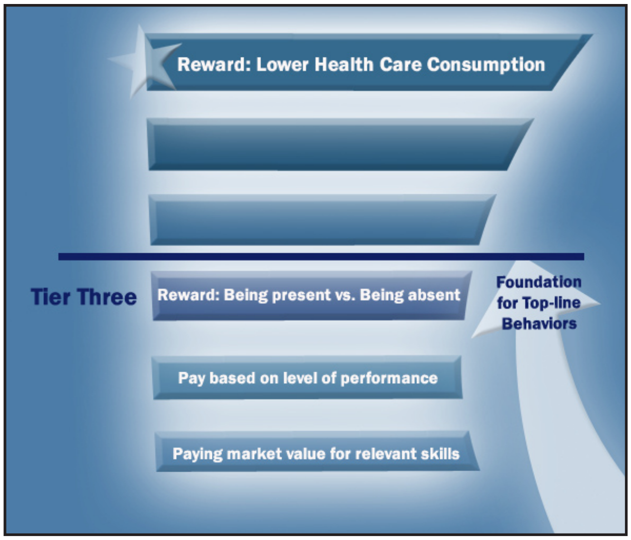

Figure 11

As discussed, the bottom three tiers of this hierarchy do not address health or health care specifically, but instead align an employment agreement to create an incentive for individuals to value and protect health. Essentially, these tiers show the importance of paying market value for human capital, measuring and rewarding high performance and measuring and rewarding presence on the job.

Tiers one through three form the basis for mutual interest in business performance. Workers receive consistent rewards for high performance and learn that their human capital has value. An aligned incentive hierarchy relies on, and builds upon, these three base components to maximize the effectiveness of health-related policies and benefits. These base tiers reinforce the value of wise health choices because health is a human capital asset—to be protected and maintained for one's own gain. This perception is critical to having effective practices in subsequent tiers.

The next three tiers address health-related incentives to further reinforce a coherent alignment that encourages health protection and wise consumer behaviors. When the bottom three tiers have been aligned to create desirable incentives for high performance at work, workers have a greater openness to efforts to improve health. Successful alignment of the bottom tiers creates an environment where workers see tangible rewards for hard work and trust that the company will share top-line success with workers. Anecdotally, one sees much higher levels of voluntary participation in health programs in companies that demonstrate alignment in the bottom tiers.

Tier Four: Reward health protective behaviors more than health risking behaviors

The next tier addresses policies and practices that demonstrate that an organization values behaviors that promote long-term health and well-being more than those that have negative health consequences. Is the worker rewarded tangibly for "doing the right things?" This applies to both personal health practices as well as safety practices.

In this tier, a company will demonstrate through its policies and practices whether it supports a partnership of mutual success (worker and company) over the long-term by placing a value on health as human capital. Is the organization supportive of high performance, but negligent in supporting the long-term health of its workers? Or is there evidence that the company rewards workers who keep themselves healthy and productive?

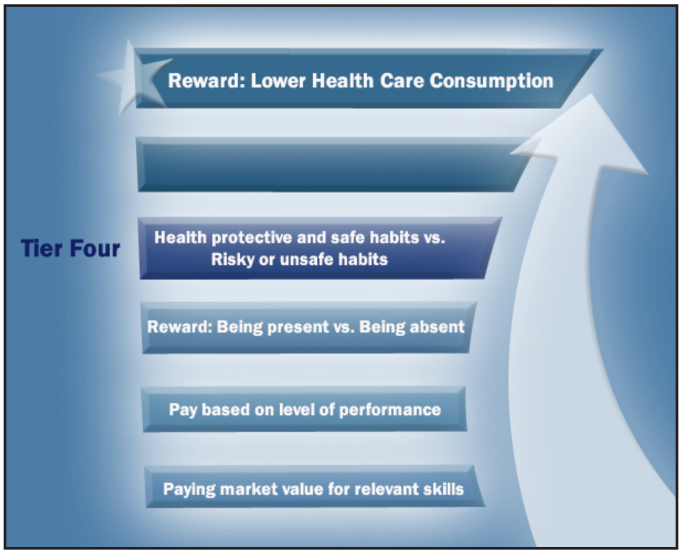

Figure 12

As with other tiers, workers will notice inconsistencies in this tier and attribute them to an exploitive motive on the part of the employer.

Examples here include many straightforward practices, some very simple. Does the organization take safety seriously and reward safe practices? If high performance is rewarded but safety procedures are lax, workers will know production is valued more than the long-term well-being of workers. Does the employer encourage unsafe work practices, or unreasonable working hours?

Consistency of incentives and rewards that favor good behavior is vital. In the area of health risks, are smokers given additional rest breaks than non-smokers, indicating a subtle reward for their habit? Do employees who have ideal weight, don't smoke, and stay fit pay the same amount for health care insurance as those who do not practice healthy behaviors? Is there an unreasonable co-payment for employees who seek recommended screenings, such as mammograms? The study shown in figure 13 illustrates how the size of co-payment influences a woman's likelihood of seeking a mammogram, and the co-payment will affect lower-paid workers more than higher-paid workers. (14)

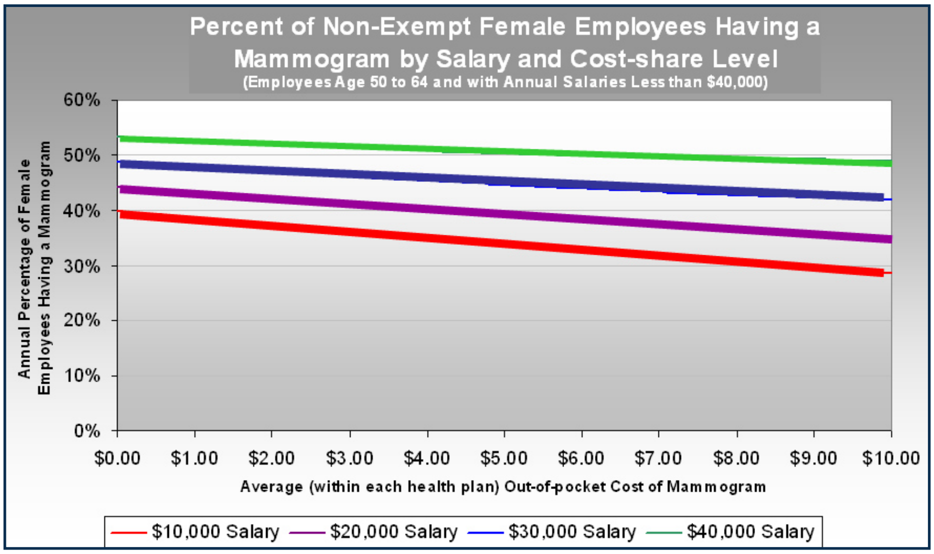

Figure 13

Another question is whether workers with unhealthy habits are offered unique financial incentives to improve (e.g., smokers offered incentives to quit), but healthy employees are not (non-smokers are not rewarded)? This example may not be as critical for companies whose incentives are aligned in the first three tiers, because healthier, fit employees will be rewarded based on their inherent capacity to do more work. However, if the first three tiers do not have aligned incentives, smokers will have a greater opportunity for rewards than non-smokers.

This fourth tier has less to do with implementing comprehensive, formal, onsite health promotion programs—although those do send a clear message about employee well-being—and more to do with practices that interfere with an employee's efforts to engage in protective health behaviors. The degree to which an employer encourages health protection is important. However, avoiding practices that are perceived to place health at risk or jeopardize safety and health prevention is even more critical.

Alignment in this tier reflects a consistency with the spirit of the employment agreement: "The company's success is my success AND my success is the company's success." Both parties will share the rewards of enhanced human capital assets, which include health.

Tier Five: Reward prudent health management more than poor management

While tier four addressed health risks and health prevention against future health problems, this tier focuses on health management behaviors regarding existing conditions. It is well established that many chronic conditions can be improved and serious problems avoided when patients take a proactive role in managing the illness. This can include lifestyle behaviors, such as exercise and diet and compliance behaviors, such as monitoring biological values and taking medication regularly. When patients do not perform recommended behaviors, the condition is more likely to

Figure 14

worsen and require expensive care sooner.
An important question in this tier is whether there are unintended rewards for poor management of health conditions, or unintended penalties for good management. If an employer seeks to encourage prudent health management, look for consistency in rewards for the right behaviors. For example, is good compliance with maintenance medications rewarded with lower costs or cost reimbursements?

Some experts suggest that patients at higher risk of bad outcomes should be provided lower co-payments, because they will benefit most from high compliance. One study suggested that overall medication costs could be maintained by increasing costs for low-risk patients to balance the decreased costs for high-risk patients (as seen in figure 15). While understandable from a clinical point of view, the incentives in this approach are misaligned. Charging low-risk patients more will result in a reward if the patient becomes high-risk, and a penalty if a high-risk patient lowers his risk. To be aligned, financial rewards should follow health improvement, not medical non-compliance.

At the most extreme is a true story of an employee who was 60 pounds overweight and requested bariatric surgery. She did not qualify at her current weight. Although she was offered support from a dietician and access to other programs, she chose to gain 40 pounds over 4 months in order to qualify for the surgery. Her surgery was paid for in full by insurance and she received eight weeks of disability pay at 100% of salary. Although most examples do not include such blatantly unhealthy behavior as purposely gaining weight, health insurance often includes mixed messages where one can receive more benefits by *not* taking care of one's self.

This tier clearly has strong links to incentives in the second and third tiers (pay for performance and pay while absent). If a worker does not receive rewards for being at work and performing well (and can expect full pay while absent), then the inherent disincentives for poor health management have been negated by the employment agreement. Add to this a perception that one's employer does not value top-line performance and considers employees a problematic operating expense. When benefits have relatively highest value in the full compensation package (compared to opportunity for bonus or wage increases) the dynamic of "getting value" shifts. Rather than earning more pay for better work, workers learn that the greatest value in compensation comes from using more benefits. In a people-as-a-cost environment, workers must take all their time off and request more services to gain more value. Workers who know that good work will be recognized and well-rewarded know that more time off and more health problems result in losses for themselves and the company for which they work.

Tier Six: Reward lower health care consumption

The initial question posed at the start of this paper was how a company could encourage lower health-care consumption by its employees. The true answer lies in alignment of all tiers described above. However, there are specific tactics in this top tier (aligning incentives that relate

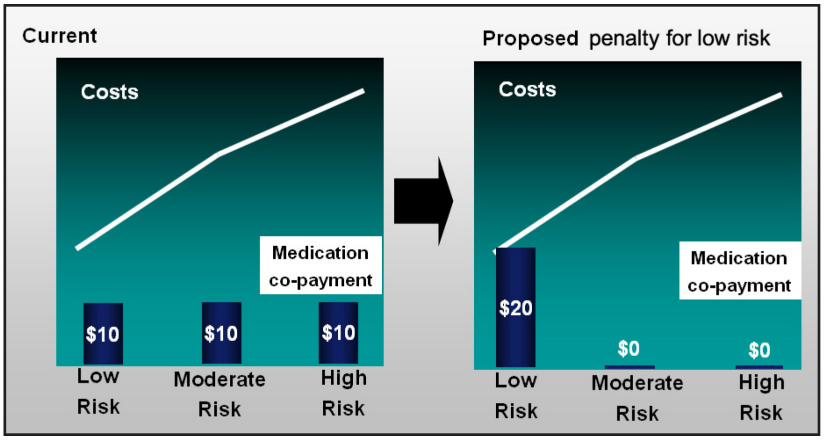

Figure 15

directly to consumption of health services) that reinforce the alignment outlined thus far.
While related to good health practices (in tier five)—because healthier people cost less—this tier addresses personal consequences for the actual cost of medical care. Are there visible and tangible rewards for choosing efficient providers, or finding less expensive alternatives? As with all other tiers, the key here is consistent and reliable personal incentives for wise consumer behaviors and consequences for wasteful consumption.

The most straightforward approach to creating this incentive is by assigning individuals stewardship of health-related accounts and having them spend what they wish and keep what they do not spend. A worker who explores options and chooses a lower-cost alternative will keep more in his account than a worker who does not. However, accounts with portable ownership of funds is essential for incentive alignment, requiring a designated Health Savings Account (HSA) that a person keeps regardless of employment.

Alternative accounts that revert back to the employer when the worker leaves his job (such as Health Reimbursement Accounts, or HRAs), do not provide the same incentive because the workers will lose value if they do not spend the money before leaving. Aligned incentives at this tier encourage prudent spending over the long-term because the individual gains from NOT spending money. Under traditional health insurance coverage from employers, workers gain the most value from using their benefits. This results in a misalignment of incentives to spend wisely and share the rewards of reduced spending.

Unfortunately, many current consumer-directed approaches, which combine health accounts with managed care health plans do not completely align incentives to reward prudent spending. First, managed care "in-network" limitations often restrict service choices such that less expensive options may not "count" against the individual's deductible. Thus, a wise shopper may actually be punished for finding a lower price that is "out of network." Secondly, most providers have not yet adopted a free-market philosophy to reward patients who pay cash at the time of service, instead requiring payment of the negotiated rate through traditional claims processes. Again, consumers have no incentive to negotiate a better price in return for up-front payment.

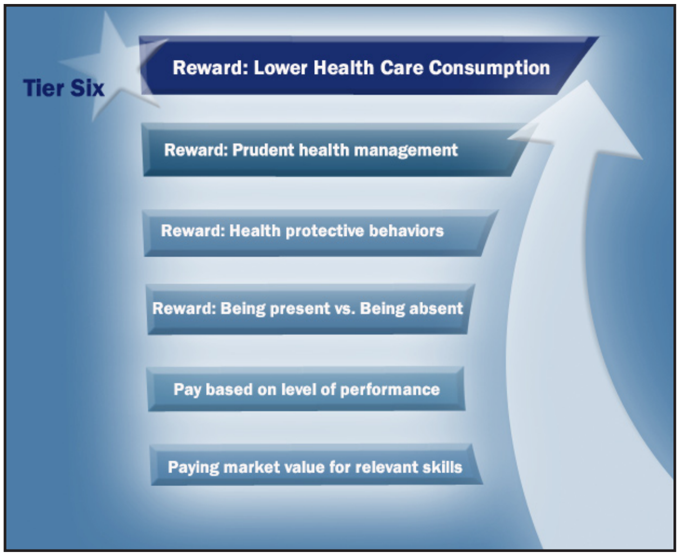

Figure 16

Aligned incentives in this tier will result in consistent rewards for prudent consumerism skills. Workers should see tangible gains from spending less on health care. The ideal outcome is efficient, effective and appropriate care for less cost; less is more. Further, workers would expect that, should spending decrease noticeably for the organization, the savings would translate to higher wages or bonuses. At this tier, as in all other tiers, the worker must experience that "the company's success equals my success"—both share the benefits from lower operating expenses, and everyone loses when spending increases.

Which comes first, trust or aligned incentives?

Worker behaviors that maximize top-line company success result from consistent demonstration of shared consequences. Our contention is that trust is an outcome of reliable, tangible incentives tied first with performance and presence. Only when workers believe that high human-capital performance will produce certain, significant, personal rewards, will those same workers trust that health improvement efforts serve their own best interests as well as the company's. Thus, improving health and lowering health-related costs requires a *broad*, aligned, hierarchy of incentives such as those described above.

Too often, organizations avoid pay-for-performance incentives for workers, and neglect measuring absence or reimbursing unused paid time-off, yet emphasize the comprehensiveness of their wellness activities and health benefits. True well-being in the work setting begins with placing inherent value on human capital as a whole. Rewarding human capital performance sends a clear message that the company values *what a worker is able to do; what a worker contributes to the top line*. Better performance results from improved skills, motivation, and good health. Health protection should be a high priority for workers because it increases their own human capital value, for which earnings and opportunities will increase.

Summary

Although counterintuitive, the greatest opportunity for significant health improvement in the workforce comes from less investment in health-related benefits and more investment in performance-based rewards. Employees who expect and receive tangible, timely, meaningful rewards for their skills and work output will value their human capital assets (including health) more. Viewing themselves as assets to top-line business success and partners with their employers encourages health-protective behavior and diminishes the perceived value of benefits and other rewards/perks that fall under the category of operating expenses. By contrast, employees who see no reliable incentive tied to performance will place greater value on benefits, and use thereof. Employers that create an aligned incentive hierarchy from the bottom up both attract workers who are motivated to earn through their human capital performance, and retain and reward their highest performers. Employers that provide the greatest value through rich benefits rather than performance-based rewards, attract workers who value benefits more then pay, and retain and reward those who value and use benefits most.

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